

**Statement of the National Association of Mutual Insurance Companies to the
Insurance and Real Estate Committee
HB-6547, "An Act Concerning Enterprise Risk Reports
John Murphy, Northeast State Affairs Manager
March 7, 2013**

On behalf of the National Association of Mutual Insurance Companies (NAMIC), I appreciate the opportunity to offer our perspective regarding HB-6547, "An Act Concerning Enterprise Risk Reports." NAMIC has over 1,400 property/casualty insurance company members serving more than 135 million auto, home, and business policyholders. NAMIC supports HB 6547 but encourages the Committee to amend the bill to assist smaller holding companies.

In 2010 the National Association of Insurance Commissioners (NAIC) revised its model Holding Company Act and included a requirement that all insurers in a holding company system file an annual Enterprise Risk Report. The new report was added in response to the 2008 financial crisis in order to provide regulators with more information about *large and complex* holding companies that can create risk to the economy or the insurance affiliates in the holding company. Unfortunately, the impact of this requirement on small company groups was not considered when the model was debated at the NAIC and these groups were swept into its reach.

NAMIC respectfully requests that you exempt small holding companies with less than \$500 million in direct written premium-should be exempted from the Enterprise Risk Report (Form F) filing requirement under the holding company statute. This small holding company exemption mirrors the exemptions in NAIC's model Audit Rule and the Risk Management Own Risk and Solvency Assessment (ORSA) model act. The ORSA legislation before your committee, HB 655, includes an exemption for companies with less than \$500 million in premium. The attached mark up of HB 6547 shows NAMIC's suggested amendment.

In 2011, Texas enacted its holding company act revisions and included an exemption from the enterprise risk report for companies with less than \$300 million in direct written premiums. Similar measures are under consideration in other states. The Kansas House recently passed holding company legislation with a similar exemption for companies with less than \$300 million in premium. While NAMIC would prefer to see the eligibility threshold to be at \$500 million for consistency with the other NAIC models, we would be open to a lesser threshold.

Completion of the annual Enterprise Risk Report (Form F) will be costly and time-consuming for small companies while adding little, if any benefit for the regulators. Small company filings will not help regulators identify systemic risks and could actually dilute regulatory attention and divert regulatory resources. Should regulators have concerns about a specific company, they can use their current regulatory authority to discuss any possible enterprise risk.

NAMIC looks forward to working with the Committee and the Insurance Department on this issue.



General Assembly
January Session, 2013

Raised Bill No. 6547

LCO No. 3295

03295 _____ INS

Referred to Committee on INSURANCE AND REAL ESTATE

Introduced by:

(INS)

AN ACT CONCERNING ENTERPRISE RISK REPORTS.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subdivision (1) of subsection (f) of section 38a-135 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective from passage*):

(f) (1) [On June 1, 2013, and annually thereafter, the] The ultimate controlling person of each insurance company subject to registration under this section, **THAT HAS ANNUAL DIRECT WRITTEN AND ASSUMED PREMIUMS OF \$500,000,000 OR MORE (EXCLUDING PREMIUMS REINSURED WITH THE FEDERAL CROP INSURANCE CORPORATION AND FEDERAL FLOOD PROGRAM)**, shall file an annual enterprise risk report in a form and manner prescribed by the commissioner. [Such] Beginning in 2014 and annually thereafter, the report shall be filed by June first for the previous calendar year. The annual enterprise risk report shall identify, to the best of such person's knowledge and belief, the material risks within the insurance holding company system that could pose enterprise risk to the insurance company. The report shall be filed with the lead state commissioner as determined by the procedures in NAIC's applicable financial analysis handbook. **NOTWITHSTANDING THE PREMIUM LIMITATION STATED ABOVE, THE COMMISSIONER MAY REQUIRE THAT ANY INSURER FILE AN ENTERPRISE RISK REPORT IF THE INSURER HAS RISK BASED CAPITAL FOR COMPANY ACTION LEVEL EVENT, OR MEETS ONE OR MORE OF THE STANDARDS OF AN INSURER DEEMED TO BE IN A HAZARDOUS FINANCIAL CONDITION.** Such report shall (A) be confidential by law and privileged, (B) not be subject to disclosure under section 1-210, (C) not be subject to subpoena, and (D) not be subject to discovery or admissible in any civil action. The commissioner shall not make such report public without the prior

written consent of the ultimate controlling person that filed such report unless the commissioner, after giving the ultimate controlling person and the insurance company to which such report pertains and its affiliates within the insurance holding company system who would be affected thereby notice and opportunity to be heard, determines that the interests of policyholders, securityholders or the public will be served by the publication thereof, in which event the commissioner may publish all or any part thereof in such manner as the commissioner may deem appropriate. The commissioner may use such report in the furtherance of any regulatory or legal action brought as part of the commissioner's official duties.

This act shall take effect as follows and shall amend the following sections:

Section 1 *from passage* 38a-135(f)(1)

Statement of Purpose:

To specify that beginning in 2014, the enterprise risk report shall be filed annually by June first.

[Proposed deletions are enclosed in brackets. Proposed additions are indicated by underline, except that when the entire text of a bill or resolution or a section of a bill or resolution is new, it is not underlined.]

NAMIC SUGGESTED CHANGES ARE INDICATED BY UNDERLINE, BOLD AND ALL CAPITAL LETTERS.